Report

of the

Examination of

IDS Property Casualty Insurance Company

De Pere, Wisconsin

As of December 31, 2003

TABLE OF CONTENTS

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Jorge Gomez, *Commissioner*

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July 28, 2004

Honorable Jorge Gomez
Secretary, Midwestern Zone, NAIC
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Honorable Kevin McCarty
Chairman, Financial Condition (E) Committee, NAIC
Director, Office of Insurance Regulation
State of Florida
200 East Gaines Street
Tallahassee, Florida 32399-0327

Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance, a compliance examination has been made of the affairs and financial condition of:

IDS PROPERTY CASUALTY INSURANCE COMPANY
De Pere, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of IDS Property Casualty Insurance Company ("IDSPC," or "the company") was conducted in 1999 as of December 31, 1998. The current examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1972 as Wisconsin No-Fault Insurance Company, Inc. Effective October 1979, Wisconsin Employers Group, Inc. (WEG), acquired ownership of the company's common capital stock, and the company's corporate name was changed to Wisconsin Employers Casualty Company (WECC). Under the 1979 acquisition by WEG, the WEG subsidiary Fireman's Fund Employers Insurance Company became the company's immediate parent.

The company was acquired by IDS Reinsurance Company (IDS Re), a subsidiary of the American Express Company (American Express), on December 31, 1986, and was merged with IDS Re in May 1987. WECC was the surviving entity of the 1987 merger. Subsequent to the merger, the name of the company was changed to IDS Property Casualty Insurance Company. The name of the immediate parent was changed from IDS Financial Corporation to American Express Financial Corporation (AEFC) in 1995.

In 2002, American Express contributed all of the outstanding shares of AMEX Assurance Company (an Illinois domiciled company) to AEFC, which in turn contributed the shares to the company. In December 2002, the Illinois Director approved the transaction and AMEX Assurance Company ("AAC") became the wholly owned subsidiary of IDSPC.

The company's primary business lines continue to be personal-lines automobile and homeowners' coverage with a significant portion of it being assumed from AAC, particularly auto lines. The business written by AAC and assumed by IDSPC consists of policies marketed to American Express credit cardholders, Costco members, internet applicants and others in the 38 states where AAC is licensed to write automobile and homeowner insurance. The underwriting standards and marketing methods are the same for both companies.

As of December 31, 2003, IDSPC was licensed to write business in Arizona, California, Illinois, Indiana, Minnesota, South Dakota, Texas, and Wisconsin. At year-end the company reported direct written premium in the following six states:

Minnesota	$3,253,984	33%
Wisconsin	3,186,344	30
Texas	1,734,978	18
Indiana	947,232	10
Arizona	765,038	8
South Dakota	37,951	1
Total	$9,925,527	100%

There was no direct premium reported for California or Illinois.

Currently, the company is working to obtain licenses in the remaining 30 states where auto and home insurance is sold by AAC, but not by IDSPC. To date in 2004, the company has obtained licensure in 10 more of those states, bringing its total from 8 to 18. The company's purpose for having two underwriting companies in the same states is to gain greater pricing flexibility and to expand its market for underwriting risks.

During the previous examination period the marketing focus of the company had been the American Express individual customer base, primarily American Express credit cardholders and financial services clients of American Express Financial Advisors (AEFA). At that time the company was also developing cooperative marketing relationships with financial institutions. As of June 2004, IDSPC had developed marketing arrangements with 21 unrelated companies, mostly credit unions.

During the course of 2000, the company invested in the development of an internet site that provided for on-line quoting and purchasing of auto insurance. The internet site resides on the American Express web site, where both AAC and IDSPC products are marketed as American Express Property Casualty Companies.

The option to purchase auto insurance, from AAC, on-line was initiated in 5 states in 2000 with 19 more added in 2001. At the present time there are no plans to expand this internet service into additional states.

Currently anyone accessing the American Express web-site can get rate quotes for both auto and home insurance. However the interactive purchase option is only available for auto insurance. Interested parties are given an on-line form to complete, similar to an application, and for an immediate quote an 800 number is provided

Starting in 2001, IDSPC entered into a partnership arrangement with Costco Wholesale Corporation, a large wholesale club with 18 million households in 2003, for purposes of marketing its personal lines of insurance to the club's membership.

The company's mix of new auto insurance sales in 2003 by customer source is depicted in the following table:

Market Segment	**Approximate Percentage of new auto sales**
Costco Wholesale Corp. members	55
Originated from the internet*	24
Non American Express affinity groups	10
American Express Cardholders	7
American Express Financial Advisors clients	4

* ACC and IDSPC sales combined.

As the table below indicates, by the end of 2003 the partnership with Costco had become a significant source for new issuances.

The major products marketed by the company are private passenger auto liability, auto physical damage, and homeowners multiple peril. Products are marketed on a direct basis. All of the company's direct-marketing sales representatives are licensed insurance agents who are located in the new headquarters building. Compensation of sales representatives is on a salary or hourly basis, plus incentive compensation based on sales production. No commissions are paid on new or renewal business, and the company does not employ any commission based agents.

The following table is a summary of the net insurance premiums written by the company in 2003. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	**Direct Premium**	**Reinsurance Assumed**	**Reinsurance Ceded**	**Net Premium**
Homeowners multiple peril	$5,236,298	$ 39,939,332	$2,124,218	$ 42,051,412
Ocean marine		260,460		260,460
Other liability occurrence		779,919	719,104	60,815
Private passenger auto liability	2,571,060	174,327,820	2,047,824	174,851,056
Auto physical damage	2,118,169	137,054,761	1,530,724	137,642,206
Total All Lines	$9,925,527	$351,362,292	$6,421,870	$354,865,949

As the table indicates, total premiums written by AAC accounted for 97% of IDSPC's direct plus assumed premium.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of ten members. Each of the directors is elected annually by the sole stockholder, to serve a one-year term. In the event of an interim vacancy in the board, the directors may elect an individual to office to serve until the next annual meeting of the sole shareholder.

Directors of the company include senior executives of American Express Financial Advisors, who may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Kenneth John Ciak Green Bay, WI	President IDS Property Casualty Insurance Co.	2004
Larry William Frazier Green Bay, WI	VP/Controller IDS Property Casualty Insurance Co.	2004
Diane Lynn Wilson Green Bay, WI	Sr. VP Insurance Operations IDS Property Casualty Insurance Co.	2004
Theodore Michael Jenkin Orange Village, OH	Group VP American Express Financial Advisors	2004
Paul Roberts Johnston Excelsior, MN	Group Counsel American Express Financial Advisors	2004
Eric Lund Marhoun Eagan, MN	Group Counsel American Express Financial Advisors	2004
Bridget Mary Steffes St. Paul, MN	SVP Client Services Organization American Express Financial Advisors	2004
Lisa Ann Steffes Apple Valley, MN	VP Marketing Officer Development American Express Financial Advisors	2004
John T Sweeney Maple Grove, MN	VP, Lead Financial Officer – Products Grp. American Express Financial Advisors	2004
David Ray Hubers Naples, FL	Retired	2004

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2003 Compensation
Kenneth John Ciak	President & CEO	$980,828
Larry W. Frazier	VP – Controller & Assistant Treasurer	222,913
Diane L. Wilson	Sr. VP – Insurance Operations	251,707
Rebecca Nash	VP – Insurance Operations	152,143
Paul R. Johnston	VP & General Group Counsel	*
Lorraine R. Hart	VP – Investments	*
Terrance M. Fettig	VP – Investments	*
Walter S. Berman	Treasurer	*
Timothy Sean Meehan	Secretary	*

* Denotes principal officers of the company who are senior executives within the holding company, whose compensation is paid on the basis of their respective responsibilities. Reimbursement for their services is covered under an affiliated services agreement between the company and American Express Financial Corporation.

There are additional comments on the reporting of Executive Compensation in the section of this report captioned "Corporate Records."

Committees of the Board

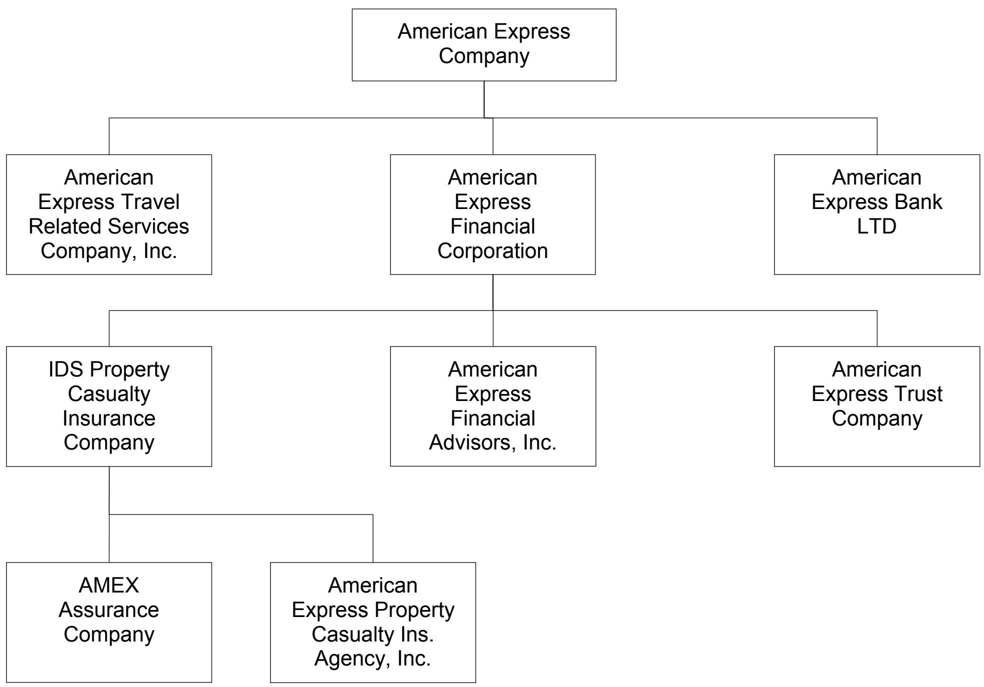
The company's bylaws allow for the formation of certain committees by the board of directors. The board of directors has established a four member investment committee in compliance with a recommendation from the previous examination.

Investment Committee
Kenneth J. Ciak, Chair
Larry W. Frazier
Lorraine R. Hart
Terrence M. Fettig

IV. AFFILIATED COMPANIES

IDS Property Casualty Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates deemed significant for purposes of this examination. A brief description of the significant affiliates follows the chart.

Organizational Chart
As of December 31, 2003



American Express Company

American Express was founded in 1850 as an express delivery business. Today American Express is principally engaged in providing travel-related, financial advisory and international banking services throughout the world. American Express has three revenue generating operating segments: American Express Travel Related Services, American Express Financial Advisors, and American Express Bank. American Express is IDSPC's ultimate parent.

As of December 31, 2003, American Express Company's consolidated audited financial statements reported assets of $175 billion, liabilities of $159.7 billion, and shareholders' equity of $15.3 billion. Operations for 2003 produced net income of $2.987 billion.

American Express Travel Related Services Company, Inc.

American Express Travel Related Services Company, Inc., provides financial, credit, and travel related services to two customer groups—individual consumers and corporations. The services provided are limited to the American Express Company brand of products, including the American Express Credit Card, travel management services, and Travelers Cheques.

Operations for 2003 produced a net income of $2.43 billion.

American Express Financial Corporation

American Express Financial Corporation (AEFC) and subsidiaries provide financial planning services, life insurance, property and casualty insurance, securities brokerage, and investment advisory services. AEFC owns 100% of the 2,000,000 shares of IDS Property Casualty Insurance Company common capital stock issued and outstanding making it the immediate parent of IDSPC.

As of December 31, 2003, AEFC's audited consolidated financial statements reported assets of $85.4 billion, liabilities of $78.1 billion, and stockholder's equity of $7.3 billion.

American Express Financial Advisors, Inc. (AEFA)

American Express Financial Advisors, Inc. is one of American Express's operating segments and a wholly owned subsidiary of American Express Financial Corporation. AEFA is engaged in providing financial planning and investment advisory services to individuals, businesses and institutions. AEFA's services include financial planning, investment advisory, trust and employee benefit plan administrations, and retail securities brokerage. AEFA's products, offered through its subsidiaries, include life and annuities and personal auto and homeowner's insurance. AEFA maintained a nationwide financial planning field force of over 12,000 financial advisors at December 31, 2003. AEFA is also licensed in Delaware as a corporate insurance agency.

AEFA's primary sources of revenue are fees charged for financial planning and brokerage services, and intercompany compensation from the parent for field staff training and administrative support.

Operations for 2003 produced a net income of $669 million.

AMEX Assurance Company (AAC)

AMEX Assurance Company is an Illinois domiciled insurance company, and a wholly owned subsidiary of IDSPC. AAC is licensed in all 50 states, the District of Columbia, Puerto Rico and Canada. The primary business lines written, on a direct basis by AAC, are group accident and health, private passenger auto, auto physical damage, inland marine, homeowners, and other liability.

Insurance products written by AMEX Assurance Company are offered primarily to American Express cardholders. Products underwritten and retained as direct business by AAC are various types of insurance coverage that are provided by the American Express Travel Related Services segment for the benefit of American Express cardholders. The products include: travel and accident insurance, lost baggage, auto rental collision damage waiver, and purchase protection and extended warranty insurance.

AAC serves as a channel for the sale of personal lines insurance, primarily automobile, for its parent, IDSPC. IDSPC markets the homeowner's and automobile products written by AAC to American Express cardholders, Costco members, and other target markets. Pursuant to an affiliated reinsurance treaty, the policies are 100% ceded to IDSPC.

As of December 31, 2003, AAC's statutory financial statements reported assets of $333,334,619, liabilities of $127,376,920, and surplus as regards policyholders of $205,957,699. Operations for 2003 produced net income of $87,077,913.

Agreements with Affiliates

Effective January 1, 1987, IDSPC and AEFC entered into an intercompany agreement for the reimbursement of certain expenses paid by AEFC on behalf of the company. The agreed upon services included strategic planning, marketing, underwriting, and other administrative services. Refer to the "Summary of Examination Results" section of this report for further discussion on this topic.

The previous examination included a recommendation that the company establish a formal tax allocation agreement. In compliance with this recommendation, the company entered into a tax allocation agreement, effective October 1, 2000, with American Express and AEFC .

Under the terms of the agreement, IDS is required to pay taxes or will receive tax refunds in amounts based on what it would have been paid or owed as if IDSPC had filed a federal income tax return on separate return basis.

Effective January 1, 1995, IDSPC and AAC entered into an agreement whereby IDSPC was providing its employees to perform services for AAC in connection with: marketing, sales, and advertising; actuarial, accounting, audit, investment, underwriting, and legal services; data processing and communications; human resources and employee benefits; any other activity deemed beneficial and necessary by AAC. With respect to any such services rendered by IDSPC personnel on behalf of AAC, compensation to IDSPC was on a time and material basis for direct expenses and/or allocable expenses charged to certain general ledger accounts. The agreement was amended in 1997 to add language to distinguish between Canadian and non-Canadian services.

An intercompany agency agreement, effective July 1, 1995, between IDSPC and AEFA was established to allow for the sale, administration, and production of property and casualty insurance on behalf of other property casualty insurers for the benefit of AEFA employees and affiliates. The agreement provides for monthly billing to IDSPC in advance of services provided, and for quarterly review and adjustment of billed amounts to conform to expenses actually incurred by the respective parties.

V. REINSURANCE

The company's reinsurance program consists primarily of assuming premium from its subsidiary AMEX Assurance Company, and ceding catastrophe excess coverage through pooling arrangements with unaffiliated foreign and, to a lesser degree, U.S. reinsurance companies. A summary of the current significant reinsurance contracts and strategy is below. All contracts contained proper insolvency provisions.

Nonaffiliated Ceding Contracts

1. Type: Three-Layer Excess Multiple Line Reinsurance

		Pool Participation		
		1st X/S	2nd X/S	3rd X/S
Reinsurers:	GE Reinsurance Corp.	30.0%	30.0%	30.0%
	Partner Reinsurance Co.	30.0	30.0	30.0
	Platinum Underwriters Reinsurance Inc..	40.0	40.0	40.0
		100.0%	100.0%	100.0%
Premium rates:		0.63%	0.44%	0.08%

Within 60 days from the expiration date, the deposit premium will be adjusted using the above rates, per layer, against net earned premiums.

Deposit Premium: $213,500 payable in 4 equal installments

Scope: Property Business: Homeowners (property perils only, including Earthquake coverage endorsements) and Inland Marine

Casualty Business: Homeowners and workers compensation in those states that mandate such coverage on homeowner policies, and private passenger automobile.

Retention: $300,000

Coverage:

First Layer	$200,000	excess of	$300,000
Second Layer	$1,000,000	excess of	$500,000
Third Layer	$1,000,000	excess of	$1,500,000

The third layer contains a special acceptance clause to cover an insured property value exceeding $2.5 million but less then $4 million, where the risk would be covered if a majority of participating reinsurers agree. For properties with a total value of greater than $4million, 100% agreement is required.

Loss Expense: Incurred loss expense will be apportioned between the company and the reinsurers in proportion to their respective interest in the ultimate net loss.

Effective date:	January 1, 2004, to January 1, 2005
Termination:	At expiration or cancellation of the agreement subject to a maximum run-off period of 12months. Alternatively, there is a cut-off basis option available to the company. Cut-off basis termination or cancellation requires giving the Reinsurers 30 day prior written notice. This option is contingent on the occurrence of certain circumstances involving the Reinsurers.

2. Type: Umbrella Liability Quota Share Reinsurance

Reinsurers:

	Pool Participation
GE Reinsurance Corp.	30.0%
Partners Reinsurance Co.	30.0
Platinum Underwriters Reinsurance Inc.	40.0
	100.0%

Scope:	All business classified as Personal Umbrella Liability
Retention:	10% of the company's net liability of $3,000,000 for any one occurrence or any one insured in excess of the underlying limits
Maximum Liability	Reinsurers' maximum liability for loss will not exceed 90% ($2.7million) of the combination of loss, extra contractual obligations, and excess liability limits arising from any one claim on any one policy. Higher limits require special acceptance of 51% of the reinsurers
Commissions:	Flat rate of 20% of premium ceded
Effective date:	January 1, 2004
Termination:	At expiration or cancellation of the agreement subject to a maximum run-off period of 12months. Alternatively, there is a cut-off basis option available to the company. Cut-off basis termination or cancellation requires giving the Reinsurers 30 day prior written notice. This option is contingent on the occurrence of certain circumstances involving the Reinsurers.

3. Type: Three-Layer Property Catastrophe Reinsurance

Reinsurers: **Pool Participation**

	1^{st} X/S	2^{nd} X/S	3^{rd} X/S
Domestic			
American Agricultural Ins. Co.	5.00%	5.00%	3.75%
Converium Reinsurance	12.00	12.00	12.00
Liberty Mutual Ins. Co.	4.00	2.50	1.25
Mapfire Reinsurance Corp.	5.00	5.00	5.00
Odyssey America Reinsurance Corp.		5.00	5.00
QBE Reinsurance Corp.		5.00	2.00
Bermuda Domiciled			
ACE Tempest Reinsurance Ltd.	5.00		5.00
AXIS Specialty Ltd.	6.00	3.50	3.00
Catlin Ins. Co. Ltd.	3.50	3.50	3.50
Endurance Specialty Ins. Ltd	6.00	8.50	8.00
Hanover Re (Bermuda) Ltd.		5.50	5.50
Montpelier Reinsurance Ltd.	10.50	4.50	3.50
Renaissance Reinsurance Ltd	9.00	6.00	6.50
Other			
Various Lloyds Syndicates	34.00	34.00	34.00
Sirius International Ins. Corp.			2.00
	100.00%	100.00%	100.00%
Premium rates:	1.639%	1.648%	1.105%

Within 60 days from the expiration date, the deposit premium will be adjusted using the above rates, per layer, against net earned premiums.

Deposit Premium: $1,305,000 for the first layer
$1,312,500 for the second layer
$880,000 for the third layer
Premiums are payable in 4 equal installments.

Scope: Property Business: Homeowners (property perils only, including Earthquake coverage endorsements),Inland Marine, and Personal Lines Automobile Physical Damage (comprehensive perils only).

Retention: $3,000,000

Coverage:

First Layer	$4,500,000	excess of	$3,000,000
Second Layer	$12,500,000	excess of	$7,500,000
Third Layer	$20,000,000	excess of	$20,000,000

First Layer – Reinsurers' liability will not exceed $4.5 million in respect to any one loss occurrence or $9 million in aggregate
Second Layer – Reinsurers' liability will not exceed $12.5 million in respect to any one loss occurrence or $25 million in aggregate
Third Layer– Reinsurers' liability will not exceed $20 million in respect to any one loss occurrence or $40 million in aggregate

Incurred loss expense is included in the ultimate net loss calculation.

Effective date: January 1, 2004, to January 1, 2005

Termination:	The contract contains a provision termination or cancellation on a cut-off basis by giving the Reinsurers 30 day prior written notice. This option is contingent on the occurrence of certain circumstances involving the Reinsurers.

Affiliated Assuming Contracts

1.	Type:	Quota Share
	Reinsured:	AMEX Assurance Company
	Scope:	Liability under certain property and casualty insurance policies (specifically including automobile, homeowner's, general personal, umbrella, and whatever other policies are mutually agreed upon by the parties), the policies having been underwritten and serviced by IDSPC
	Coverage:	100% of all losses incurred on business reinsured
	Premium:	100% of all premiums on reinsured policies
	Effective date:	December 31,2003
	Termination:	At any time by mutual consent of both parties, or any January 1, by either party giving at least 60 days' advance written notice

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

IDS Property Casualty Insurance Company
Assets
As of December 31, 2003

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$322,870,348	$	$322,870,348
Stocks:			
Common stocks	206,797,567		206,797,567
Real estate:	(786,005)		(786,005)
Cash	1,104,758		1,104,758
Investment income due and accrued	4,706,019		4,706,019
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	37,064,059		37,064,059
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	2,331,270		2,331,270
Reinsurance:			
Amounts recoverable from reinsurers	585,243		585,243
Current federal and foreign income tax recoverable and interest thereon	115,761		115,761
Net deferred tax asset	10,705,044		10,705,044
Electronic data processing equipment and software	2,283,163	404,021	1,879,142
Receivable from parent, subsidiaries, and affiliates	481,085		481,085
Other assets nonadmitted:	2,181,960	2,181,960	
Write-ins for other than invested assets:			
Miscellaneous Receivable	11,428	0	11,428
Total Assets	$590,451,700	$2,585,981	$587,865,719

IDS Property Casualty Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2003

Losses		$122,252,486
Loss adjustment expenses		11,909,184
Commissions payable, contingent commissions, and other similar charges		5,795,736
Other expenses (excluding taxes, licenses, and fees)		7,631,488
Borrowed money and interest thereon		18,338,242
Unearned premiums		107,769,531
Ceded reinsurance premiums payable (net of ceding commissions)		635,257
Amounts withheld or retained by company for account of others		(11,088)
Provision for reinsurance		304
Payable to parent, subsidiaries, and affiliates		1,733,625
Total Liabilities		276,054,765
Common capital stock	$ 2,000,000	
Gross paid in and contributed surplus	223,981,976	
Unassigned funds (surplus)	85,828,978	
Surplus as Regards Policyholders		311,810,954
Total Liabilities and Surplus		$587,865,719

IDS Property Casualty Insurance Company
Summary of Operations
For the Year 2003

Underwriting Income		
Premiums earned		$324,614,141
Deductions:		
Losses incurred	$246,368,694	
Loss expenses incurred	27,673,649	
Other underwriting expenses incurred	56,197,862	
Total underwriting deductions		330,240,205
Net underwriting gain or (loss)		(5,626,064)
Investment Income		
Net investment income earned	72,887,064	
Net realized capital gains or (losses)	256,371	
Net investment gain or (loss)		73,143,435
Other Income		
Net gain or (loss) from agents' or premium balances charged off	(154,719)	
Finance and service charges not included in premiums	1,900,716	
Write-ins for miscellaneous income:		
Loss on sale of Furniture & Equipment	(52,511)	
Service Fees	572,010	
Total other income		2,265,496
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		69,782,867
Dividends to policyholders		0
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		69,782,867
Federal and foreign income taxes incurred		928,987
Net Income		$ 68,853,880

IDS Property Casualty Insurance Company
Cash Flow
For the Year 2003

Premiums collected net of reinsurance			$346,023,887
Net investment income			72,216,029
Miscellaneous income			2,239,929
Total			420,479,846
Benefit and loss related payments		$231,374,194	
Commissions, expenses paid, and aggregate write-ins for deductions		52,879,213	
Federal and foreign income taxes paid (recovered)		1,663,299	
Total deductions			285,916,706
Net cash from operations			134,563,140
Proceeds from investments sold, matured, or repaid:			
Bonds	$73,477,657		
Miscellaneous proceeds	51,475		
Total investment proceeds		73,529,132	
Cost of investments acquired (long-term only):			
Bonds	149,621,100		
Real estate	(112,908)		
Miscellaneous applications	1,281,455		
Total investments acquired			
Net increase (or decrease) in policy loans and premium notes		150,789,647	
Net cash from investments			(77,260,515)
Cash from financing and miscellaneous sources:			
Borrowed funds received		(32,258)	
Dividends to stockholders		(57,600,000)	
Other cash provided (applied)		(173,323)	
Total			
Net cash from financing and miscellaneous sources			(57,805,581)
Reconciliation			
Net change in cash and short-term investments			(502,956)
Cash and short-term investments, December 31, 2002			1,607,714
Cash and short-term investments, December 31, 2003			$ 1,104,758

IDS Property Casualty Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2003

Assets		$587,865,719
Less investments in insurance subsidiaries		205,957,699
Add Security Surplus Excess of insurance subsidiaries		166,694,774
Less liabilities		276,054,766
Adjusted surplus		272,548,028
Annual premium:		
Lines other than accident and health	$354,865,949	
Factor	20%	
	70,973,190	
Compulsory surplus (subject to a minimum of $2 million)		70,973,190
Compulsory surplus excess (or deficit)		$201,547,838
Adjusted surplus (from above)		$272,548,028
Security surplus: 130% of compulsory surplus		92,265,145
Security surplus excess (or deficit)		$180,282,883

IDS Property Casualty Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2003

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2003	2002	2001	2000	1999
Surplus, beginning of year	$264,774,173	$74,139,440	$75,639,239	$65,528,935	$54,413,952
Net income	68,853,879	5,569,107	1,993,424	11,011,425	10,989,171
Net unrealized capital gains or (losses)	29,776,412	2,090		79,310	51,656
Change in net deferred income tax	(59,016)	5,870,945	1,066,184		
Change in non-admitted assets	5,922,550	2,989,874	(7,440,782)	(929,228)	107,354
Change in provision for reinsurance	66,501	(15,689)	33,285	(51,203)	(33,198)
Cumulative effect of changes in accounting principles	76,455	(218,444)	2,848,090		
Surplus adjustments:					
Paid in		176,436,850			
Dividends to stockholders	(57,600,000)				
Surplus, end of year	$311,810,954	$264,774,173	$74,139,440	$75,639,239	$65,528,935

IDS Property Casualty Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2003

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2003	2002	2001	2000	1999
#1	Gross Premium to Surplus	116.0%	96.0%	250.0%	189.0%	196.0%
#2	Net Premium to Surplus	114.0	94.0	246.0	187.0	192.0
#3	Change in Net Writings	42.0*	37.0*	29.0	12.0	12.0
#4	Surplus Aid to Surplus	0.0	0.0	0.0	0.0	0.0
#5	Two-Year Overall Operating Ratio	84.0	97.0	96.0	90.0	88.0
#6	Investment Yield	17.1*	4.4*	6.0	6.3	6.1
#7	Change in Surplus	18.0	240.0*	-1.0	17.0	19.0
#8	Liabilities to Liquid Assets	83.0	81.0	82.0	73.0	74.0
#9	Agents' Balances to Surplus	12.0	11.0	30.0	25.0	26.0
#10	One-Year Reserve Development to Surplus	7.0	8.0	1.0	-20.0	-16.0
#11	Two-Year Reserve Development to Surplus	21.0*	5.0	-20.0	-22.0	-31.0
#12	Estimated Current Reserve Deficiency to Surplus	10.0	9.0	14.0	8.0	-1.0

Ratio Number 3, Change in Net Writings, measures the increase or decrease in reported net premium written as a percentage of net premiums written in the prior year. For both 2003 and 2002, the company reported significant increases in net premium written, due to a combination of growth in policies and rate increases, causing exceptional IRIS ratios in both years.

Ratio number 6, Investment Yield, measures net investment income as a percentage of the average amount of cash and invested assets during the year. The exceptional result in 2003 was due to the $57.6M dividend paid to IDSPC by AAC. Lower than usual market interest rates contributed to the 2002 exceptional ratio.

Ratio number 7, Change in Surplus, measures the change in surplus from the prior year. The exceptional results for 2002 were the result of the series of transactions that resulted in IDSPC's 100% ownership of AAC, which contributed $176.4 million to IDSPC's surplus.

Ratio number 11, Two-Year Reserve Development, was exceptional in 2003 due to significant reserve strengthening. In 2001, IDSPC launched their Costco marketing program and experienced significant premium growth. Management decided to move reserves from the lower to mid-range of their opining actuary's acceptable reserve range for prior accident years.

Growth of IDS Property Casualty Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2003	$587,865,719	$276,054,766	$311,810,954	$68,853,880
2002	470,166,024	205,391,851	264,774,173	5,569,107
2001	242,172,657	168,033,217	74,139,440	1,993,424
2000	204,262,149	128,622,910	75,639,239	11,011,425
1999	191,299,216	125,770,280	65,528,936	10,989,171
1998	172,966,538	118,552,586	54,143,952	10,907,143

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2003	$361,287,819	$354,885,949	$324,614,141	84.4%	15.2%	99.6%
2002	254,567,548	250,200,576	228,601,041	81.1	19.6	100.7
2001	185,705,766	182,596,893	167,365,699	85.9	20.40	106.3
2000	142,660,640	141,095,894	135,723,517	72.6	26.2	98.8
1999	128,651,592	125,924,541	123,111,406	76.5	20.9	97.4
1998	116,798,997	111,994,401	107,770,715	73.7	21.3	95.0

Since the prior examination, gross premium written increased by 209%, total assets by 240%, and policyholder surplus by 475%.

In 2003, 2002, and 2001 the company reported significant increases in premium written due to sales growth and rate increases. In 2002 and 2001 the company experienced unfavorable loss experience. For 2001, IDSPC reported that the primary reason for the earning decrease was many small weather related incidents. In 2003, the company strengthened reserves for prior years but still reported a combined ratio under 100%.

Net income reported for 2003 contains the $57.6 million dividend from AAC. Exclusive of the dividend, net income increased to about $11.2 million or about double the amount from the prior year.

As noted earlier in this report, in 2002 American Express Company through its subsidiary AEFC, contributed all of the outstanding shares of AAC's common stock to IDSPC.

The transaction resulted in an incremental increase in surplus of $176.4 million with an increase to affiliated investments for the same amount. AAC has historically been profitable, and has paid dividends each year to its owner. In 2003 and 2004, AAC has paid a dividend to IDSPC. IDSPC has requested (and received) permission under Wisconsin's extraordinary dividend laws to pay the amount of the AAC dividend received to American Express Financial Corporation.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2003, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were fourteen specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Corporate Records—It is again recommended that the company file with the Commissioner the name and biographical information of each director or officers at the time that the individual is newly elected or appointed as a director or officer, in compliance with s. 611.54 (1) (a), Wis. Stat.

   Action—Compliance.

2. Corporate Records—It is again recommended that the minutes of the meetings of the board of directors provide complete information regarding each principal officer of the corporation, reflecting the names of elected and appointed officers, the offices occupied, the method of officer selection, and other pertinent matters of officers tenure, including subsequent resignation, removal form office, or further election or appointment.

   Action—Noncompliance, see comments in the summary of current examination results.

3. Corporate Records—It is recommended that the company maintain records or the ability to reproduce records sufficient to document and support the transactions and account balances reported in the company's annual statutory financial statements, in conformity with s. Ins 6.80, Wis. Adm. Code.

   Action—Compliance.

4. Corporate Records—It is recommended that the company ensure that the membership of each of the executive committees established by the board of directors consist of three or more directors and not include non-director committee members, in compliance with s. 611.56 (1), Wis. Stat.

   Action—Compliance.

5. Conflict of Interest—It is again recommended that annually each director, officer, and key employee of the company complete a conflict of interest disclosure as required by the Commissioner's directive, and that the company retains copies of each year's disclosure forms in company records so that they may be available for review.

   Action—Noncompliance, see comments in the summary of current examination results.

6. Affiliated Reinsurance Agreement—It is recommended that the company provides prior notification of affiliated reinsurance agreements or amendments under which premium or changes in liabilities equal or exceed 5% of the prior-year surplus, in compliance with s. Ins 40.04 (2) (c), Wis. Adm. Code.

   Action—Noncompliance, see comments in the summary of current examination results.

7. Inter-Company Tax Allocation Agreement—It is recommended that the company establish a formal income tax allocation agreement, and that the agreement provide for allocation and payment of income tax liability and benefit proportionately to the company's income tax on a

non-consolidated basis. This agreement must be filed with this office for prior approval prior to execution, pursuant to s. Ins 40.04 (2), Wis. Adm. Code.

Action—Compliance.

8. Federal Income Tax Recoverable—It is recommended that the company use the designated lines of the statutory annual statement in reporting its year-end federal income tax assets and liabilities, and that the federal income tax recoverable assets continue to be captioned to designate that they are receivable from the company's parent, in compliance with the NAIC Annual Statement Instructions—Property and Casualty.

   Action—Noncompliance. See comments in the summary of current examination results.

9. Information Technology—It is recommended that the company's disaster recovery plan be adjusted as necessary to reflect the company's current systems and operations, and that the plan contain sufficient detail to provide for specifics of how business continuation recovery will be accomplished in the event of a disaster. It is further recommended that the company establish procedures for the storage of critical business forms and documentary manuals offsite to ensure their availability if needed for business-continuation purposes.

   Action—Compliance.

10. Information Technology—It is recommended that the company implement procedures to prevent individuals from making unauthorized changes to test environment computer software.

    Action—Compliance.

11. Agents Balances or Uncollected Premiums—It is recommended that the company correctly classify its premium receivable assets in its reported statutory annual statements, in conformity with the NAIC Annual Statement Instructions—Property and Casualty.

    Action—Compliance.

12. Agents Balances or Uncollected Premiums—It is again recommended that the company report advance premium liability in its statutory financial statements, in conformity with the NAIC Annual Statement Instructions—Property and Casualty.

    Action—Compliance.

13. Unpaid Losses—It is recommended that the company's opining actuary fully document and disclose material information pertaining to the actuarial reconciliation opined upon in the company's actuarial Statement of Opinion.

    Action—Compliance.

14. Unpaid Losses—It is recommended that the company's opining actuary independently review either ceded or net reserves when opining on the net reserves in the company's actuarial report.

    Action—Compliance.

Summary of Current Examination Results

Corporate Records

Corporation by-laws provide that "the principal officers of the Corporation shall be a President, four Vice-Presidents, a Secretary, and a Treasurer. The appointment of more than four Vice-Presidents shall of itself constitute an amendment of the number of Vice-Presidents provided in the foregoing sentence." The by-laws also state that "the President, or his designee, may appoint any officer of the Corporation below the rank of Executive Vice-President. The Board has the authority to designate one or more of the Vice-Presidents as Executive Vice-Presidents." The minutes of director meetings reflect information on the annual election of a President, Chairman, Secretary, Treasurer and various Vice-Presidents. However, the examination review noted that the recording in the minutes of who was elected as a Vice-President made no reference as to whether the officer was an Executive Vice-President (appointed by the Board), or a lower ranking Vice President (appointed by the President). The examination also noted inconsistencies between elected officers reported in the minutes and those being reported on the annual statement jurat page as Vice-Presidents. For example, a Vice President is listed on both the 2003 and 2002 annual statement jurat pages, but he is not listed as one of the officers being elected during the July 2003 board meeting. If this is a case where the officer was appointed by the President it should have been noted as such in the minutes.

An insurer is subject to the requirements of s. 180.1601, Wis. Stat., which provides that a corporation shall maintain various reports and records, including minutes of the meetings of the board of directors. One purpose of maintaining and recording such minutes is to document board oversight of the business affairs of the company as dictated by company by-laws and ch. 180, Wis. Stat. In order to document that the Board of Directors of IDSPC is either electing or is aware of the appointment of any principal officer and any resignations or removals from office, this information should be recorded in the minutes. The minutes should also detail the method of officer selection (e.g., election by the board, appointment by an upstream affiliate or by the President).

The previous two examinations also noted similar shortcomings with the minutes. It is again recommended that the minutes of the meetings of the board of directors provide complete information regarding each principal officer of the corporation, reflecting whether the officer is being elected by the board or appointed by the President or his designee, the method of officer selection, and other pertinent matters of officer tenure, including subsequent resignation, removal from office, or further election or appointment.

The company by-laws state that "the salaries of principal officers shall be fixed from time to time by the Board of Directors or by a duly authorized committee." The examination found that salaries for these individuals were never authorized or fixed by the Board at any time during the period under examination, nor is there any appointed committee of the IDSPC Board to perform this function. The examination determined that it is the American Express Company's Compensation and Benefit Committee that is responsible for the oversight of the salary of executive and key employees of American Express and subsidiaries. It is recommended that the company either follow its by-laws or amend them to reflect the current method of determining executive salaries.

Each Wisconsin domiciled insurer is required under ss. 601.42 and 611.63 (4), Wis Stat., to file a Report on Executive Compensation as a supplement to the insurer's annual statement. The examination of IDSPC included a review of this filing for 2003. It was noted that the compensation for several officers of IDSPC, including the Treasurer and Secretary, was not reported on this form. The company must report either the entire salary and other compensation for each officer, or the amount of the officer's salary and other compensation allocated to the company (with proper documentation of the allocation method); the company's filing did not comply with the statute. It is recommended that the company comply with ss. 601.42 and 611.63 (4), Wis. Stat., by annually reporting the full salary and other compensation of each officer, or the amount of each officer's salary and other compensation that is allocated to the company on the Wisconsin Report of Executive Compensation form.

Conflict of Interest

In 1989 the Commissioner issued a directive requiring that on an annual basis, each director, officer, senior executive, or fiduciary disclose to the insurer's Board of Directors any personal circumstance that could potentially give rise to a conflict of interest. However, the company was unable to provide the required signed conflict of interest disclosure forms for all years under examination review. The prior two examinations also found deficiency in company disclosure and recommended corrective action. It is again recommended that annually each director, officer, and key employee of the company complete a conflict of interest disclosure as required by the Commissioner's directive, and that the company retain copies of each year's disclosure forms with company records so that they may be available for review by this office.

Custodian Agreement

Effective January 1, 1997, the company entered into a custodial agreement with American Express Trust Company for the purpose administering the company's securities. The examination review noted that American Express Trust Company is chartered under Minnesota state statutes as a trust company. According to s. 610.23, Wis. Stat., a company must have a bank or banking and trust company as its custodian. The term "banking and trust company" is unambiguously a reference to a financial institution with trust powers. The term is conjunctive, that is the entity must be both a bank and a trust company. Such an entity must be licensed as a either a bank or a bank and trust company under ch. 223, Wis. Stat., or under equivalent statutes in other states. This provides protections for the insurer including absolute liability for the acts of the nominee, segregation of trust assets and financial regulation. It is recommended that the company utilize a bank or banking trust company as its custodian, in accordance with s. 610.23, Wis. Stat.

Reinsurance Agreements

As noted in the Reinsurance Section of this report, the company has an agreement with AMEX Assurance Company. At the time of the previous examination, two amendments had been made to this agreement but were not submitted to the Commissioner for prior review and a recommendation was made for compliance with ch. Ins 40, Wis. Adm. Code. In response, the company filed the amendments with the Commissioner. However, in 2003 the terms of the agreement were amended again to change the ceding percentage to 100% for all states. Under the terms of this agreement IDSPC assumed $351 million of premiums in 2003; an amount equal to 98% of gross premiums and 133% of 2002 capital and surplus. The amendment was filed with the Commissioner of Insurance in June 2004, with an effective date of December 31, 2003.

Section Ins 40.04 (2) (c), Wis. Adm. Code, provides that affiliated reinsurance agreements, or modification of existing treaties, under which the reinsurance premium or the change in an insurer's liabilities equals or exceeds 5% of the insurer's prior-year surplus, are subject to prior review and disapproval by the Commissioner of Insurance. An insurer is required to file any such proposed agreement or amendment not less than 30 days' prior to entering into the transaction. It is again recommended that the company provide prior notification of affiliated reinsurance agreements or amendments under which premiums or changes in liabilities equal or exceed 5% of the prior-year surplus, in compliance with s. Ins 40.04 (2) (c), Wis. Adm. Code.

Intercompany Agreements

As noted in the Agreements with Affiliates section of this report, in 1987, when IDSPC was the newly acquired subsidiary of AEFC, the two parties entered into a service agreement. The agreement was established when IDSPC was named IDS Reinsurance and AEFC was named IDS Financial Corp. Under the terms of the agreement, the parent was to provide "strategic planning, marketing, underwriting, and other administrative services" for the benefit of the new company. The contract did not elaborate on the specifics of these services. However since 1987, IDSPC has experienced significant growth in its assets, premium volume and customer base, and has become increasingly dependent on AEFC for many services that are critical to company operations. Functions where provided services have significantly changed include marketing and underwriting. This is because the agreement predates the entire era of on-line marketing and its related ease of customer access and service.

IDSPC utilizes the American Express web-site for the purpose of marketing to prospective customers. For example, potential customers are able to request an auto or home quote via the Internet. Currently the company can bind individual auto policy coverage online if specific underwriting standards are met. In 2003, 24% of all new auto policy sales were attributed to the American Express web-site or other related on-line marketing. All technology work related to the company's use of the internet is performed by American Express Technologies and is considered part of the 1987 agreement. In addition, all data processing functions, such as payroll, investments, and the general ledger are controlled by AEFC at its Minnesota headquarters and are considered a service that falls under this agreement.

Considering how significantly the services provided by AEFC to IDSPC have changed, the 1987 agreement appears antiquated and not meaningful to the company's current operations. At the present time, the service agreement between IDSPC and AEFC has become a "catch-all" for many critical services and without amendments appears as a minimum response to regulatory requirements.

The examination review also noted that the agreement contained an arbitration clause, which left the appointment of a third arbitrator to the Commissioner of Commerce of the State of Minnesota. The inclusion of a regulatory party to arbitrate any differences of opinion between what are now interdependent affiliated companies is no longer appropriate.

It is recommended that the 1987 agreement with American Express Financial Corporation be either amended or rewritten to accurately reflect the current situation in regards to all services being provided to the company, the current names of the corporations, and the methodology of cost allocation. In addition, any arbitration clause should not involve a state regulatory body in an internal dispute. This new agreement must be filed with this office for prior approval 30 days in advance of the effective date, pursuant to s. Ins 40.04, Wis. Adm. Code.

Federal Income Tax Recoverable

The previous two examinations recommended that the company report this asset in compliance with the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions—Property and Casualty. For 2001, 2002, and 2003 the company did report the federal income tax recoverable on the correct line of the annual statement but did not caption the line as being due from its parent company. It is again recommended that the federal income tax recoverable assets be captioned to designate that they are receivable from the company's parent, in compliance with the NAIC Annual Statement Instructions—Property and Casualty.

Intercompany Tax Allocation Agreement

In compliance with a prior exam recommendation, IDSPC and AEFC established a formal tax allocation agreement for the purpose of filing consolidated tax returns with American Express Co. and its qualifying subsidiaries. According to the NAIC Statements of Statutory Accounting Principles (SSAP) No. 10, paragraph 23, and the NAIC Annual Statement Instructions—Property and Casualty, if a company files a consolidated federal income tax form with any other entities it shall disclose in the Notes to Financial Statements section of the annual statement the following information:

1) A list of names of the entities with whom the reporting entity's federal income tax return is consolidated for the current year; and

2) The substance of the written agreement, approved by the reporting entity's Board of Directors, which sets forth the manner in which the total combined federal income tax for all entities, is allocated to each entity which is a party to the consolidation. (If no written agreement has been executed, give an explanation of why such an agreement has not been executed.) Additionally, the disclosure shall include the manner in which the entity has an enforceable right to recoup federal income taxes in the event of future net losses which it may incur or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

During the period under review, the company did not disclose the required information. It is recommended that the company properly complete the income tax note in the Annual Statement, in compliance with SSAP No. 10, paragraph 23.

Subsequent Event

The company amended its articles of incorporation in August 2002 to change the address of the principal office, because of the move to the new home office building. The company amended its articles in May 2004 to change the par value of its common stock from $1 to $2.50 per share, which increased the "Common capital stock" from $2 million to $5 million, to meet the licensing requirements of another state. The company's June 30, 2004, statement, signed by its officers on July 19, reflected this change. The company filed the two amendments to its articles with this office in October 2004. Pursuant to s. 611.29 (4), Wis. Stat., no amendment to the articles may become effective until the articles of amendment have been filed with this office. It is recommended that the company comply with s. 611.29, Wis. Stat., and not act under amended articles until the amendments have been filed with this office.

VIII. CONCLUSION

IDSPC has experienced significant growth since the prior examination; gross premium written increased by 209%, total assets by 240%, and policyholder surplus by 375%. This growth is primarily a result of several key factors. One was the contribution AMEX Assurance Company's common stock to IDSPC, which resulted in an increase in surplus of $176.4 million. Another was the establishment of a partnership with Costco Wholesale Corporation which gave the company marketing access to its 18 million members. For 2003, this agreement accounted for 55% of new auto policy sales. Another significant change since the previous examination was the development of on-line marketing tools, which accounted for 24% of new auto sales in 2003.

The examination found that the company had complied with all but four of the prior exam recommendations. Three of those were being repeated for the second time for issues relating to corporate records keeping and minor annual statement reporting. The current examination made six new recommendations pertaining to intercompany agreements, corporate records, and annual statement reporting. There were no adjustments to the December 31, 2003, statutory annual statement as of the examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 28 - Corporate Records—It is again recommended that the minutes of the meetings of the board of directors provide complete information regarding each principal officer of the corporation, reflecting whether the officer is being elected by the board or appointed by the President or his designee, the method of officer selection, and other pertinent matters of officer tenure, including subsequent resignation, removal from office, or further election or appointment.

2. Page 28 - Corporate Records—It is recommended that the company either follow its by-laws or amend them to reflect the current method of determining executive salaries.

3. Page 28 - Corporate Records—It is recommended that the company comply with ss. 601.42 and 611.63 (4), Wis. Stat., by annually reporting the full salary and other compensation of each officer, or the amount of each officer's salary and other compensation that is allocated to the company on the Wisconsin Report of Executive Compensation form.

4. Page 29 - Conflict of Interest—It is again recommended that annually each director, officer, and key employee of the company complete a conflict of interest disclosure as required by the Commissioner's directive, and that the company retain copies of each year's disclosure forms with company records so that they may be available for review by this office.

5. Page 29 - Custodian Agreement—It is recommended that the company utilize a bank or banking trust company as its custodian, in accordance with s. 610.23, Wis. Stat.

6. Page 30 - Reinsurance Agreements—It is again recommended that the company provide prior notification of affiliated reinsurance agreements or amendments under which premiums or changes in liabilities equal or exceed 5% of the prior-year surplus, in compliance with s. Ins 40.04 (2) (c), Wis. Adm. Code.

7. Page 31 - Intercompany Agreements—It is recommended that the 1987 agreement with American Express Financial Corporation be either amended or rewritten to accurately reflect the current situation in regards to all services being provided to the company, the current names of the corporations, and the methodology of cost allocation. In addition, any arbitration clause should not involve a state regulatory body in an internal dispute. This new agreement must be filed with this office for prior approval 30 days in advance of the effective date, pursuant to s. Ins 40.04, Wis. Adm. Code.

8. Page 31 - Federal Income Tax Recoverable—It is again recommended that the federal income tax recoverable assets be captioned to designate that they are receivable from the company's parent, in compliance with the NAIC Annual Statement Instructions—Property and Casualty.

9. Page 32 - Intercompany Tax Allocation Agreement—It is recommended that the company properly complete the income tax note in the Annual Statement, in compliance with SSAP No. 10, paragraph 23.

10. Page 33 - Subsequent Events—It is recommended that the company comply with s. 611.29, Wis. Stat., and not act under amended articles until the amendments have been filed with this office.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	**Title**
Randy Milquet	Data Processing Audit Specialist
Kerri Miller	Insurance Financial Examiner
Stephen Elmer	Insurance Financial Examiner
Bill Genne	Insurance Financial Examiner

Respectfully submitted,

Eleanor Oppriecht
Examiner-in-Charge